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Background Paper for Assistant Secretary
Sue Eckert Meeting

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E.O. 12354
Sec. 1.3(a)(5)

Background

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Sec. 1.3(a)(5)

(U) U.S. export control policy for the People's Republic of China (PRC) is presently being impacted by implementation of several administration initiatives that liberalize overall export controls. The development of a successor regime to COCOM that seeks multilateral cooperation in the export of a reduced list of highly sensitive dual-use items and conventional arms will also impact on trade relations with China. China is a potential member.

U.S. Export Licensing Policy

(U) The United States multilaterally controls exports of strategic dual-use goods and technologies to China under the auspices of the Coordinating Committee on Multilateral Export Controls (COCOM) and the three non-proliferation regimes (the Missile Technology Control Regime, the Australia Group and the Nuclear Suppliers Group). Exports requiring a validated license to China are subject to a case-by-case review with careful examination as to the end-use and end-user.

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A background paper on U.S. export control policy is attached.

Missile-Related MTCR Export Control Sanctions

(U) In August 1993, the United States determined that China had transferred missile-related items to Pakistan. The determination triggered MTCR Category II sanctions under U.S. law. The sanctions prohibit the export of all MTCR Annex goods and technologies to sanctioned PRC entities for up to two years.

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(U) Although satellites are not on the MTCR list, they typically contain MTCR items. Certain commercial communications satellites are licensed by Commerce and others are licensed by State. The Administration has decided that satellites under Commerce jurisdiction are not subject to the missile proliferation sanctions, and may be approved. Satellites under State Department jurisdiction remain subject to the missile sanctions law and license applications still will be denied.

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(U) Recent Licensing Policy Liberalizations that Impact China

(U) Telecommunications: The United States submitted major proposals to liberalize the licensing of telecommunications controls to COCOM in late 1993. Included in the discussions were reduced control levels for fiber optics, radio relay, cellular communications systems, and more advanced switching techniques related to these types of communications. These proposals will be implemented beginning in early 1994, and will liberalize the licensing policy for exports to China. The PRC has targeted its telecommunications infrastructure for \$10-17 billion worth of investment in the next 7-10 years.

(U) Computers: The October 1993 COCOM computer decontrol to 67 MTOPS (proposed by the United States) released computers and related equipment from licensing requirements for which the Commerce Department received approximately \$ 1.5 billion worth of IVL applications in 1993. The additional imminent COCOM decontrol action to 260 MTOPS (to be implemented in January 1994) will release an additional \$69 million worth of computers to the PRC and related peripherals from IVL requirements, and release from control almost all personal computer-type machines and work stations widely used in business.

(U) Energy Related Equipment: The Commerce Department estimates that the PRC will invest as much as \$65 billion in its energy sector by the year 2000. U.S. companies currently face no export

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control restrictions with regard to coal, oil and gas exploration, development and production equipment. The United States does maintain unilateral export controls on nuclear technologies associated with electric power production. These restrictions affect such items as reactor and power plant simulators, process control systems and turbines-generators. However, Commerce is currently in the process of removing unilateral controls on certain process control systems and turbines-generators through a proposed regulation circulated for interagency clearance in November 1993. These changes are expected to be implemented in early 1994 and will allow U.S. companies to compete more freely in this so-called "balance of plant" market niche. Industry estimates this market to be worth \$10-15 billion over the next ten years.

Recent Export Licensing Activity

(U) The dollar volume of U.S. trade with China that received an individual validated export license (IVL) represented approximately 17% and 30% of the overall trade volume with China in 1992 and 1993, respectively. The United States approved 1,497 IVLs worth \$1.28 billion in 1992, and 1,821 IVLs worth \$2.1 billion in 1993. Average processing times in 1993 for all IVLs was 66 days; 86 days for license applications referred to other agencies (e.g. the Departments of Defense, State or Energy) for review; and 26 days for non-referred licenses. The top categories of items for which IVLs were approved in 1993 are computers and related peripherals, software, telecommunications equipment and related software, chemicals and electronics.

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(U) Plans are being developed to hold a series of Commerce-sponsored export licensing seminars in the Far East later in 1994, including China. A seminar will be held in Beijing if funding is available. An additional seminar in Shanghai is also being considered at the request of Amembassy Beijing.

Due to post-Cold War realities and changes in the global strategic environment, COCOM has been considering since mid-1993 how the organization should evolve to meet current needs. COCOM has agreed to a broad framework for a process that will terminate the present COCOM by March 31, 1994, and will establish a new regime to control conventional arms and sensitive dual-use goods to countries of proliferation concern.

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The potential exists for China to join the COCOM successor organization.

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Recent Export Licensing Activity

- o (U) The dollar volume of U.S. controlled trade with China is expanding in spite of substantial decontrol initiatives. The United States approved export licenses valued at \$1.28 billion in 1992 and \$2.1 billion in 1993.
- o (U) The top categories of items for which IVLs were approved in 1993 are computers and related peripherals, software, telecommunications equipment and related software, chemicals and electronics.

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Commerce Export Licensing Seminars

- o (U) We hope to hold a Commerce-sponsored export licensing seminar in China later this year. [REDACTED]
- o (U) This will be part of a larger Commerce Department initiative to conduct export licensing seminars throughout the Far East.

Post-COCOM Environment

- o (U) COCOM has not yet concluded its discussions on how to restructure its operations to meet the changing strategic environment, although I believe that those discussions should be completed by the end of March.
- o (U) If China is interested in membership in the new regime, I understand that, at this point, members will have to control their conventional arms and WMD component sales, implement an effective export control system and adhere to the multilateral export control regimes and various international nonproliferation norms.
- o (U) The new regime aims to address the threat posed when conventional arms and related dual-use technologies are acquired by countries that support international terrorism or which intend to use their conventional arms to destabilize a region.

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Sec. 123(a)(5)